

Internal Revenue Service
District Director

Department of the Treasury

P. O. Box 2508
Cincinnati, OH 45201

Date: OCT 13 1989

Employer Identification Number:

Person to Contact:

Telephone Number:

Dear Sir or Madam:

We have considered your application for recognition of exemption from Federal income tax under the provisions of section 501(c)(6) of the Internal Revenue Code of 1986 and its applicable Income Tax Regulations. Based on the available information, we have determined that you do not qualify for exemption from Federal income tax for the reasons set forth on Enclosure I.

Consideration was given to whether you qualify for exemption under other subsections of section 501(c) of the Code and we have concluded that you do not.

As your organization has not established exemption from Federal income tax, it will be necessary for you to file an annual income tax return on Form 1120.

You have agreed to this determination by executing Form 6018, Consent to Proposed Adverse Action, dated July 31, 1989.

Thank you for your cooperation.

Sincerely yours,


District Director

Enclosure

Enclosure I
Reasons for proposed denial of exempt status

Information submitted with your application indicates that you were incorporated [REDACTED]. Your Articles of Incorporation state, in part, that your purposes are:

To foster and promote the interests of those individuals, partnerships, firms, associations and corporations who are engaged in business as authorized franchised [REDACTED] dealers in the United States,

To unite such dealers for the purpose of maintaining a compact, representative and centralized agency to consider, agree and act in unison upon all matters affecting the activities of its members,

To combine member's efforts and monies for cooperative advertising, public relations and sales activities,

To promote the interest of those engaged in business as [REDACTED] dealers, and to establish and promote a more enlarged and friendly intercourse among them,

To aid in the promotion of the value of [REDACTED] dealerships by promotion of quality products and services, by promotion of effective advertising and public relations, and by promotion and protection of resaleability of [REDACTED] businesses through franchisee freedom and profitability,

To be a source of mutual assistance through sharing of ideas and experiences, crisis or financial emergency help, and legal financial assistance and counsel.

Your Code of Regulations state that any duly authorized licensed franchisee (person, firm or corporation) of [REDACTED] [REDACTED] [REDACTED] (hereafter "[REDACTED]") or predecessor or other affiliate of the [REDACTED] family, may become a member. Your members are owners-operators of car, truck and van improvement businesses selling automotive appearance and protection products and services. [REDACTED] is the name for a system of automotive rust protection and encompasses a broad line of appearance and protection products and services.

Your organization was formed because independent [REDACTED] dealers needed to have an organized group represent them in dealings and discussions with the franchisor, [REDACTED]. You will accompany a dealer to a meeting with [REDACTED] if the dealer wishes to have someone else present at the meeting. You publish a bi-monthly newsletter which is sent to all dealers in the United States and Canada. You hold two meetings each year which include seminars which benefit your members as business owners. You also have small committees which meet on a regular basis with [REDACTED] officials for ongoing discussion of concerns of the dealers. You co-host business marketing and advertising seminars in cooperation with [REDACTED] for dealers. Your activities are open to all [REDACTED] dealers, whether or not they are dues-paying members of your organization.

[REDACTED]

Your activities are funded by membership dues and occasional donations from members and sale of advertising space in your bi-monthly newsletter. You also receive fees from vendors at your mini trade show. Funds are expended for advertising, printing, meeting expenses, and other miscellaneous expenses.

Section 501(c)(6) of the Code provides for the exemption from Federal income tax of business leagues, chambers of commerce, real-estate boards, boards of trade or professional football leagues (whether or not administering a pension fund for football players), not organized for profit and no part of the net earnings of which inures to the benefit of any private shareholder or individual.

Section 1.501(c)(6)-1 of the Regulations states that a business league is an association of persons having some common business interest, the purpose of which is to promote such common business interest and not to engage in a regular business of a kind ordinarily carried on for profit. It is an organization of the same general class as a chamber of commerce or board of trade. Thus, its activities should be directed to the improvement of business conditions of one or more lines of business as distinguished from the performance of particular services for individual persons.

Revenue Ruling 58-294, 1958-1 C.B. 244 discusses an association organized and operated for the purpose of promoting uniform business, advertising and fair trade practices in connection with the manufacture, and sale of a certain patented product. Membership was limited to any person, firm, or corporation licensed to manufacture and sell the specified product. It was determined that since the association was engaged in furthering the business interests of the dealers in the particular patented product, rather than the improvement of business conditions of one or more lines of business, it did not qualify for exemption from Federal income tax as a business league under section 501(c)(6) of the Code.

In Revenue Ruling 83-164, 1983-2 C.B. 95, an organization was formed to develop and disseminate information pertaining to the electronic data processing equipment manufactured by the M Corporation. Its membership was made up primarily of representatives of diversified businesses that owned, rented, or leased one or more computers produced by M. Membership was also open to representatives of other businesses that did not use M's computers. The organization held conferences at which operational and technical problems relating to computer use were discussed. Nonmembers were invited to attend the conferences and were encouraged to join as members. The speakers at the conferences typically included members as well as recognized professionals in the computer industry. Also, some representatives of M attended and disseminated current information relative to M's equipment. Income was received from conference registration fees. Expenditures were made

for conference expenses and miscellaneous administrative costs. This revenue ruling states that in addition to promoting the common business interest of its members, a business league exempt under section 501(c)(6) of the Code must also seek to improve conditions in one or more lines of business.

Revenue Ruling 83-164 also states that although the members of the organization have a common business interest concerning the use of computers, it directs its activities to users of computers made by one manufacturer. By directing its activities only to the users of brand M computers, the organization is directing its activities towards the improvement of business conditions in only a segment of the various lines of business. Because the organization limits its activities to the users of M computers, it helps to provide a competitive advantage to M and to its customers at the expense of M's competitors and their customers that may use other brands of computers. Thus, it was held that the organization's activities were not directed towards the improvement of business conditions in one or more lines of business within the meaning of section 1.501(c)(6)-1 of the Regulations. It was held that the organization, whose primary activity was promoting the common business interests of users of one particular brand of computer, did not qualify for exemption from federal income tax as a business league under section 501(c)(6) of the Code.

In National Muffler Dealers Association, Inc. v. United States, 440 U.S. 472, Ct. D. 1997, 1979-1 C.B. 198 (1979), the United States Supreme Court held that an organization of muffler dealers franchised by Midas International Corporation does not qualify for exemption from Federal income tax as a business league under section 501(c)(6) of the Code because the organization's purpose was too narrow to satisfy the line of business test of section 1.501(c)(6)-1 of the Regulations. The Court concluded that the line of business limitation of section 1.501(c)(6)-1 is well grounded in the origin of section 501(c)(6) and in its enforcement over a long period of time. The Court further concluded that exemption under section 501(c)(6) is not available to aid one group in competition with another within an industry.

The term "line of business" has been interpreted to mean either an entire industry, see American Plywood Assn. v. United States, 267 F. Supp. 830 (W.D. Wash. 1967); and National Leather & Shoe Finders Assn. v. Commissioner, 9 T.C. 121 (1947), acq. 1947-2 C.B. 3, or all components of an industry within a geographic area, see Commissioner v. Chicago Graphic Art Federation, Inc. 128 F.2d 424 (7th Cir. 1942); Crooks v. Kansas City Hay Dealers' Assn., 37 F.2d 83 (8th Cir. 1929); and Washington State Apples, Inc. v. Commissioner, 46 B.T.A. 64 (1942), acq. 1942-1 C.B. 17. Organizations that have failed to meet the line of business test but instead were found to have served only a "segment of a line" include groups composed of businesses that have licenses to a single patented product, market a certain make of automobile, or bottle one type of soft drink. These groups promote segments of an industry at the expense of others in the industry.

████████████████████

Based on the evidence presented, we have concluded that you do not meet the requirements for exemption under section 501(c)(6) of the Code as a business league. Your activities are directed towards the improvement of business conditions in only a segment of the automotive aftermarket industry. You promote ██████ dealers and ██████ products.

Pursuant to the court cases cited above, the term "line of business" has been interpreted to mean either an entire industry or all components of an industry within a geographic area. The evidence presented indicates that your activities are not directed to the improvement of business conditions of one or more lines of business because you serve only one segment of a line, ██████ products.

Accordingly, we have concluded that you do not qualify for exemption from Federal income tax under section 501(c)(6) of the Code nor do you qualify under any other section of the Code.